

Value-Added Communications, Inc.

EXHIBIT 5

Inmate held in \$2 million phone scam

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As he was being led away by detectives yesterday, Eugene Caldwell pleaded his innocence.

"I want a phone call," he said. Detectives couldn't help but laugh. Phone calls from inside the State Correctional Institution at Pittsburgh are what got Caldwell into trouble.

By using prison pay telephones, outside accomplices and fraudulently obtained credit card numbers, Caldwell ordered millions of dollars worth of merchandise from around the

world, said Assistant Police Chief Orin Edwards of the investigations branch. He'd been at it for two years, Edwards said.

The goods were sold on the streets, and some of the proceeds were used to buy drugs that were smuggled into the prison, said Chief Ronald Freeman, also of the investigations branch.

"Operating out of a cell, he certainly gives new meaning to the term 'cellular phone,'" Freeman said. Caldwell, a convicted burglar serving a maximum 11-year sentence for

parole violation. Edwards said Caldwell's arrest proved that a telephone system the state Corrections Department installed in November 1991 to prevent such schemes is not working. Prison officials, however, said Caldwell's arrest proved the system works.

Caldwell, 35, of Lawrenceville, denied everything to reporters as Detective Howard Parsons took him to the prison for arraignment on counts of theft by deception. Charges are expected to be filed against him, police said.

"They don't have any evidence. I don't know what they're talking about," Caldwell said.

"They're the crooks. Look what happened to Itchy King. I'm just another black man, that's all."

Freeman said that despite Caldwell's pleas of innocence to reporters, he had told detectives and Secret Service agents that he had fraudulently purchased \$5 million to \$6 million worth of goods during the past two years. Investigators estimated the purchases at a minimum of \$2 million to \$3 million.

The scheme Caldwell used is identical to the one state corrections officials have been trying to deter, police said.

In the scheme, inmates place collect calls to accomplices outside the prison who have telephones with a three-way calling feature. That feature is crucial because inmates can place only collect calls.

The accomplices then connect inmates to businesses, and the inmates

SEE INMATE, PAGE A-2

Pen inmate charged in costly phone scam

INMATE FROM PAGE A-1

orders merchandise using fraudulently obtained credit card numbers. The merchandise then is shipped to the accomplices.

As many as 25 people worked for Caldwell outside the prison, Freeman said. The investigation is continuing, and more arrests are expected.

Despite the fact that Caldwell was permitted to make four 15-minute telephone calls a day, he was on the phone for seven or eight hours some days, Freeman said.

Corrections officials said Caldwell was able to make so many calls by obtaining the personal identification numbers of other inmates. Those numbers are necessary to make phone calls, said prison spokesman Tim Collins.

One day, Caldwell made multiple calls to South Africa, Israel and England, Edwards said.

"He would buy gold from South Africa, silver from England, clothing from Massachusetts, computers from Florida, very expensive, valuable lamps from Louisiana. He's international in scope," Freeman said.

"He's running a little enterprise in here. It's an absolute travesty."

In one instance, it is said, Caldwell bought a coin minted in the visage of King George VI. The coin was sold on eBay for \$200.

Caldwell chose his merchandise from catalogs he received at the prison, Freeman said.

Caldwell got credit card numbers by regularly calling a resort in Tel Aviv, Israel, and identifying himself as an official with MasterCard or Visa, Freeman said.

Explaining that the company's computers had crashed, Caldwell would ask for the resort's credit card transactions that day, and the resort would give him names, account numbers and expiration dates, Freeman said.

Freeman and Edwards criticized the resorts for not confirming Caldwell's story.

Several unidentified small companies have been put out of business "by Caldwell and others like him," Freeman said.

Law enforcement officials used Caldwell's arrest to criticize the computerized telephone system the Corrections Department had AT&T install in November 1991 to try to prevent such schemes.

City police and state Sen. Michael Fisher, R-Upper St. Clair, said yesterday that it's time for the department to install a system that can intermittently interrupt inmate conversations to alert the other party that a prisoner was on the line. Fisher and detectives have pushed for that system for years.



Eugene Caldwell
A convicted burglar

The current system plays a tape-recorded message at the beginning of all phone calls. But inmates quickly learned to wait until the message was completed before having the outside accomplice place calls to businesses, police said.

The system also was designed to disconnect calls if a three-way-calling feature was activated in a call from the prison. But by mid-December 1991, inmates had learned that accomplices could circumvent the system by quickly pushing a button on their Touch-Tone phones.

"I was willing to say when they put the system in, 'I don't think it's going to work, but let's see,'" Fisher said. "Now we have proof we were right."

The Corrections Department maintained yesterday that their system is 95 percent effective, a figure police disputed.

"They're continuing to victimize society. They're sharp, they're shrewd," Fisher said of the inmates using the scheme. "If they put their minds to work as well on the outside and became productive citizens, it would be at much less cost to taxpayers."

"But since they're doing this in a state institution, the state has some obligation to try to look out for innocent parties."

He said he disputes the position of the Corrections Department that legislation is necessary to put in the message-override system he favors.

"Quite frankly I wonder at times if they aren't using this as an excuse not to put it in," he said.

"We're trying to work with the state Corrections Department to resolve this," Edwards said. "Something needs to be done."

Fisher said the issue will be addressed in several weeks when Corrections Department officials attend budget hearings.